

**Performance Audit
Convention and Entertainment Centers
Facility Rental Revenues**

May 2003

**City Auditor's Office
City of Kansas City, Missouri**

May 21, 2003

Honorable Mayor and Members of the City Council:

This performance audit of convention center facility rental revenues was initiated by the City Auditor pursuant to Article II, Section 13 of the city charter. The Mayor and City Council are currently considering private management of some convention and entertainment facilities as a way to increase city revenues. In order to provide the Mayor and Council with objective information about Convention and Entertainment Centers revenues, this audit examined the department's process for setting rental prices and approving rental discounts, as well as the impact of rental prices and discounts on department revenues.

The February 2003 RFP for private management of the American Royal Center facilities included a mission statement developed as part of the City's KC-GO process. The mission statement includes a goal of maximizing revenues. In order to achieve this goal, the department's process for setting rental rates for the city's convention centers needs to be improved. Although department regulations prohibit charging less than the cost of staging an event, rents are set without adequate information regarding costs. Overall operating revenues are less than operating costs, and the department has required a total of \$6.3 million in general fund subsidies over the past five years to offset the difference. Although management used other cities' rental rates as a guide for setting Kansas City's rates, a sample survey included only five other cities and excluded comparisons for many of the city's convention facilities.

The Convention and Entertainment Centers need comprehensive discount policies. The department does not have written policies establishing limits on rental discounts or identifying personnel responsible for reviewing and approving discount decisions. In addition, the rationale for and calculations of rental discounts are not consistently documented. Although management does not track the total amount of rental discounts awarded, we estimate the city gave \$2.6 million in rental rate credits and other discounts in fiscal year 2002.

We recommend the City Manager submit the developed mission statement to the Mayor and City Council for deliberation. We recommend the department develop cost information, and provide comparisons of costs and revenues to the Mayor and City Council, for their consideration of cost recovery goals for the city's convention facilities. The department should establish a process for evaluating the adequacy of rental charges which considers achievement of established cost recovery goals and expanded rental surveys that compare rental rates for more of its facilities. We also recommend the department establish a comprehensive discount policy which sets limits on rental discounts offered, establishes responsibility for

discount reviews and approvals, requires documentation of discount decisions, and requires tracking and management reports on total rental discounts given.

A draft of this report was sent to the City Manager and the Director of Convention and Entertainment Centers on March 13, 2003. Written responses are included as appendices. We appreciate the courtesy and cooperation extended to us by the staff of the Convention and Entertainment Centers Department throughout the audit. The audit team for this project was Sue Polys, Joan Pu, and Gary White.

Mark Funkhouser
City Auditor

Convention and Entertainment Centers Facility Rental Revenues

Table of Contents

Introduction	1
Objectives	1
Scope and Methodology	1
Background	2
Findings and Recommendations	5
Summary	5
Rental Rate Setting Process Needs Improvement	6
Cost Information Could Improve Rate Setting Process	6
Cost Recovery Goals Could Be Revised	8
Review Process Should Include Rate Comparisons and Cost Recovery Goals	9
Comprehensive Discount Policies Are Needed	10
Discount Policies Are Inadequate	11
Comprehensive Discount Policies Are Needed	13
Recommendations	14
Appendices	17
Appendix A: City Manager's Response	17
Appendix B: Director of Convention and Entertainment Centers' Response	21
Appendix C: City Auditor's Comments Regarding the Director of Convention and Entertainment Centers' Response	25

List of Exhibits

Exhibit 1. Facility Rental Rates for Selected Types of Events	3
Exhibit 2. Rental Revenues by Complex, Fiscal Years 1998 – 2002	3
Exhibit 3. Operating Results, Fiscal Years 1998 - 2002	7
Exhibit 4. Net General Fund Contributions, Fiscal Years 1999 – 2003	7
Exhibit 5. Rental Charges Before and After Discounts	13

Introduction

Objectives

This audit of the Department of Convention and Entertainment Centers' rental revenues was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the City Auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making.¹ This audit was designed to answer the following questions:

- How are rental prices and discounts determined?
- What are the controls over discounts?
- Does the department comply with the controls?
- What is the effect of discounts on rental revenues?

Scope and Methodology

This audit examined the department's process for setting rental prices and approving discounts, as well as the impact of rental prices and discounts on department revenues.

The audit was conducted in accordance with government auditing standards. Methods included:

- Interviewing Convention and Entertainment Centers staff.
- Reviewing department policies and controls for rental rates and discounts.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U. S. Government Printing Office, 1994), p. 14.

- Determining revenues received from recent facility events.
- Reviewing department event contract files and other related documents.

No information was omitted from this report because it was deemed privileged or confidential.

Background

The Convention and Entertainment Centers Department leases the city's over one million square feet of event space in the Convention Center and American Royal Center complexes. In fiscal year 2002, over 250 events were held in these two complexes. These events included professional sporting events, weddings, concerts, banquets, proms, rodeos, conventions, and trade shows.

The Convention Center Complex occupies eight city blocks of Downtown. It includes H. Roe Bartle Hall; Municipal Auditorium, consisting of an exhibition hall, an arena, the Music Hall, and the Little Theater; and Barney Allis Plaza, an outdoor park. The American Royal Center Complex, located in the River Bottoms District, includes Kemper Arena, Hale Arena, the Governor's Building, and the upper and lower American Royal Exhibit Halls.

The two complexes have 400,000 square feet of column-free exhibit space; 58 meeting rooms; and three arenas with seating for 5,000, 10,700, and 19,500 patrons. Each complex has parking facilities, with spaces for 1,100 cars at the Convention Center and 5,000 cars at the American Royal Center.

Funding. Convention and Entertainment Centers' annual expenditures exceeded \$20 million in each of the last six years. Expenditures for fiscal year 2004 are expected to be \$24 million.

Funding sources include the hotel-motel tax, rental and service revenues, an annual state grant, and the general fund. Restaurant tax receipts also provide funding, although these revenues are restricted to capital improvements or debt service.

Rental rates. The department has established standard rental rates for its facilities. Rental charges for the same space vary depending on the entity holding the event (public or private, commercial or non-

commercial) and the revenue stream of the event (admission, exhibit space, participant registration). Rental space is sometimes charged as a flat rate and sometimes charged by square foot. Rental rates for some selected events are shown in Exhibit 1.

Exhibit 1. Facility Rental Rates for Selected Types of Events

Facility	Size (sq. ft.)	Convention Meetings ²	Local Meetings ³	Commercial Events ⁴	Commercial Exhibits ⁵
Bartle Hall A	68,850	\$2,000	\$3,500	\$4,000	\$18,000 (min.)
Bartle Hall B	48,600	1,500	2,500	2,800	12,000 (min.)
Bartle Hall C	76,680	2,200	3,700	4,500	20,250 (min.)
Bartle Hall D	93,600	2,500	4,500	5,400	24,750 (min.)
Bartle Hall E	100,980	3,000	4,900	5,900	26,250 (min.)
Grand Hall 1203	21,500	2,000	4,450	4,000	2,500
Great Hall 4300	23,910	2,500	5,050	5,000	3,000
Municipal Aud. Arena	24,000	2,000	3,000	3,500	3,500
Municipal Aud. Music Hall	2,400	1,000	1,500	N/A	N/A
Municipal Aud. Little Theatre	5,329	750	1,000	1,000	1,000
Municipal Aud. Exhibit Hall	86,000	1,500	2,500	2,000	2,000
Kemper Arena	19,000	8,000	8,000	N/A	N/A
Wagstaff Theatre	450	500	500	N/A	N/A
Hale Arena	54,900	2,500	2,500	3,500	7,800 (min.)
Upper Exhibit Hall	86,000	N/A	N/A	1,875	8,000 (min.)
Lower Exhibit Hall	86,000	N/A	N/A	3,500	9,600 (min.)
Governor's Building	96,000	N/A	N/A	3,500	10,800 (min.)

Source: Convention and Entertainment Centers Current Rental Rates Summary Sheet, 1997.

Rental revenues. Overall, rental revenues have increased slightly since 1998. Revenues for the American Royal complex generally declined during the last five years, while revenues for the Convention Center complex increased. (See Exhibit 2.)

Exhibit 2. Rental Revenues by Complex, Fiscal Years 1998 - 2002

Fiscal Year	American Royal	Convention Center	Total Revenues
1998	\$1,585,609	\$2,783,756	\$4,369,365
1999	1,783,850	2,475,745	4,259,595
2000	1,521,351	3,013,834	4,535,185
2001	1,389,881	3,071,322	4,461,203
2002	1,432,165	3,115,002	4,547,167

Source: AFN.

² Convention meetings without exhibits.

³ Local meetings with registration.

⁴ Commercial public events with no admission charge.

⁵ Commercial for profit exhibits. Rate is based on 3 event-days plus 3 move-in/move-out days. The event organizer may pay rental charges based on the square footage.

Convention and Entertainment Centers Facility Rental Revenues

Findings and Recommendations

Summary

The Convention and Entertainment Centers' rental rate setting process needs improvement. Currently, rates are set without determining the cost of holding an event. Operating revenues are less than operating costs, and the general fund has contributed more than \$6 million over the past five years to make up the difference. The department's goal is to charge rates that fall in the middle of rates charged by comparable cities, but a sample survey of other cities was limited in the venues examined. The February 2003 RFP for private management of the American Royal Center facilities included a mission statement developed as part of the KC-GO process. The mission statement includes a goal of maximizing revenues that was never formally adopted by the City Council. We recommend the City Manager submit the mission statement to the Mayor and Council for deliberation. In order for the department to achieve the revised mission requires that the department improve its rental rate setting process. We recommend the department develop cost information and provide cost and revenue data to the Mayor and City Council for their reconsideration of cost recovery goals. The department should also establish a rental rate setting process that considers achievement of cost recovery goals and expanded rental surveys that compare rates for more of its facilities. The director should use this information as he asserts his authority to set rental rates.

Although the department has written guidelines describing factors to be considered in granting rental discounts, there are no written policies describing how much rental revenue the city is willing to forgo and who is responsible for reviewing and approving the discounts. The reasons for and calculations of rental discounts are not consistently documented. Inadequate controls over rental discounts could lead to the appearance of, and opportunity for, favoritism toward some users of the convention facilities. Management does not track the total amount of rental discounts given, but we estimate that \$2.6 million in total rental credits and other discounts were given in fiscal year 2002. We recommend the department establish a comprehensive discount policy which sets limits on rental discounts offered, establishes responsibility for discount review and approval, requires documentation of discount decisions, and requires tracking and management reports on total rental discounts given.

Rental Rate Setting Process Needs Improvement

Event costs are not considered when rental rates are set. Currently, the department sets its rental rates without knowing the costs involved in hosting individual events. Department management does not have a cost accounting system, and operating revenues do not cover operating costs. Although the department seeks to have Kansas City's rental rates fall around the middle of rates charged by comparable cities, comparisons performed of rates charged by other cities are limited. The February RFP for private management of American Royal facilities included a mission statement with a goal of maximizing revenues. Accomplishing this goal requires the department know individual event costs. Pursuit of this goal may allow the Mayor and Council to revise established cost recovery rates to reduce city subsidies.

Cost Information Could Improve Rate Setting Process

Convention and Entertainment Centers' expenses routinely exceed revenues, requiring subsidies from taxes, the state, and the general fund. The department's mission was recently revised to emphasize maximizing revenues in addition to economic impact. Accomplishing this mission requires cost information which is currently unavailable.

Event costs are unknown. Although the department's rules and regulations state that in no event shall the rate charged be less than the cost of staging the event, the department sets its rental rates without knowing the actual cost of staging individual events held at its facilities.

Department management told us that they sometimes compare projected revenue to actual revenue, but do not compare projected cost to actual cost. We found comparisons of revenues and expenses for annual contracts with the American Royal Association, Big Twelve Tournament, and sports teams such as the Kansas City Attack. We did not find any consistent documents showing that the department analyzed projected and actual costs of individual events or compared costs to revenues. The department does not have a cost accounting system that would identify costs by individual event. Instead, costs are approximated based on the department's annual budget, which is divided by 365 to estimate daily expenses. Management reports working to develop a cost allocation system to address multiple events occurring on the same day and estimating utility costs for events in future years.

Expenditures routinely exceed revenues. Revenues from rental charges, concessions, parking and other facility charges are consistently less than operating expenses for both the American Royal and the Convention Center complexes. (See Exhibit 3.)

Exhibit 3. Operating Results, Fiscal Years 1998 - 2002

Complex	1998	1999	2000	2001	2002
American Royal Revenues	\$ 5,403,711	\$ 6,389,647	\$ 6,043,481	\$ 5,717,424	\$ 5,489,048
American Royal Expenses	<u>(6,175,460)</u>	<u>(7,405,368)</u>	<u>(6,565,931)</u>	<u>(7,846,758)</u>	<u>(6,740,951)</u>
Surplus/(Deficit)	\$ (771,749)	\$ (1,015,721)	\$ (522,450)	\$ (2,129,334)	\$ (1,251,903)
Convention Center Revenues	\$ 4,674,043	\$ 4,386,554	\$ 5,409,706	\$ 4,881,686	\$ 5,594,419
Convention Center Expenses	<u>(10,587,670)</u>	<u>(11,968,962)</u>	<u>(12,965,521)</u>	<u>(13,403,685)</u>	<u>(13,152,413)</u>
Surplus/(Deficit)	\$ (5,913,627)	\$ (7,582,408)	\$ (7,555,815)	\$ (8,521,999)	\$ (7,557,994)

Sources: AFN, Adopted Budgets 2001-2003, and Submitted Budget 2004.

General fund used to offset some deficits. Convention Center deficits are largely offset by subsidies from the hotel/motel tax and an annual \$2 million state grant. Operating deficits for the American Royal Center complex are offset by the general fund. Over the last 5 years, total net general fund contributions (general fund expenditures less American Royal revenues) have been about \$6.3 million. (See Exhibit 4.)

Exhibit 4. Net General Fund Contributions, Fiscal Years 1999 - 2003

Funding Source	1999	2000	2001	2002	2003 ⁶
General Fund	\$ 7,439,711	\$ 6,611,962	\$ 8,217,027	\$ 7,075,655	\$ 6,317,944
Less American Royal Revenues	<u>(6,389,647)</u>	<u>(6,043,481)</u>	<u>(5,717,424)</u>	<u>(5,489,048)</u>	<u>(5,700,000)</u>
Net General Fund Contributions	\$ 1,050,064	\$ 568,481	\$ 2,499,603	\$ 1,586,607	\$ 617,944

Sources: Adopted Budgets 2001-2003, and Submitted Budget 2004.

Mission success requires cost data. The City Council recently approved a resolution directing the City Manager to seek proposals for private management of the American Royal Center facilities.⁷ Included in the request for proposals was a revised mission statement which includes an emphasis on maximizing revenues. Previously, the mission of the department was to “provide the greatest economic impact for the downtown and the entire community.”

The revised mission of the department is “to maximize the community economic impact and the revenues of the City’s facilities, while making fiscally sound decisions and enhancing the quality of life and entertainment in Kansas City and the metropolitan area.” The revised

⁶ General Fund funding is budgeted. American Royal Revenues are estimated.

⁷ Committee Substitute for Resolution 020294 passed on February 20, 2003.

mission statement was developed as part of the KC-GO process, discussed with and generally agreed to by the Finance and Audit Committee, and communicated to the Mayor and City Council in a November 14, 2002 memorandum. However, the mission statement included in the RFP was never formally adopted by the Council.

The previous mission statement, developed by the Mayor's Convention Center Task Force, was adopted by the City Council in 1997, as a statement of intent to fully support the Convention and Entertainment Centers facilities and the convention industry.⁸ We recommend the City Manager submit the new mission statement to the Mayor and City Council to ensure it reflects Council goals for all Convention Center facilities.

Meeting the revised mission requires the department improve its rate setting process. Information on the costs of individual events and departmental operations is necessary to maximize revenues. This information is also needed for effective, "fiscally sound" decision-making.

Cost Recovery Goals Could Be Revised

Maximizing revenues may require additional guidance from the Mayor and City Council on the portion of costs the department should seek to recover from department revenues. If the department's mission includes maximizing revenues, revised cost recovery goals could seek to eliminate general fund subsidies.

Our Fees and Service Charges follow-up report⁹ recommended the Mayor and City Council establish cost recovery goals for departments collecting fees for service. Most public convention facilities require at least some public subsidy, as revenues are often short of operating costs.¹⁰ When revenues cover operating costs, they never cover debt service.¹¹ However, Convention and Entertainment Centers currently receives subsidies from the state and the hotel-motel tax, in addition to the general fund. The Mayor and Council could consider the cost

⁸ Resolution 971230.

⁹ *Fees and Service Charges Follow-up*, Office of the City Auditor, City of Kansas City, Missouri, September 2000, p. 20.

¹⁰ Jewell, Don, *Privatization of Public Assembly Facility Management - A History and Analysis*, (Malabar, Florida, Krieger Publishing Company, 1998), p. 4.; Spickard, Steven, "Economic Impact of Convention and Conference Centers," retrieved from <http://www.hotel-online.com/Trends/ERA/ERAImpactConventionCenters.html> on February 4, 2003; Bagli, Charles V., "A Convention Center Race May Spawn Losers," NY Times, April 3, 2002, retrieved from <http://www.hotel-online.com/Trends/ERA/ERAImpactConventionCenter.html> on February 4, 2003.

¹¹ Spickard, Steven, "Economic Impact of Convention and Conference Centers."

recovery goals for Convention and Entertainment Centers, perhaps to eliminate reliance on general fund subsidies. If achieved, this would allow the department to rely solely on subsidies received from the hotel-motel tax and state grants.

The Director of Convention and Entertainment Centers should develop information comparing department costs and revenues and submit that to the Office of Management and Budget (OMB) as part of the city's annual user fee review process. This information would assist the Mayor and Council as they consider the portion of costs the department should recover.

Review Process Should Include Rate Comparisons and Cost Recovery Goals

Comprehensive comparisons of rental rates of other cities, and information from routine monitoring of success in meeting established cost recovery goals should be considered when the director modifies facility rental rates.

Comparisons to other cities should be comprehensive. Department management report that rental rates were set based in part on comparisons with other cities. Their goal is that Kansas City rental rates should fall around the middle of rates charged by comparable cities.

We asked for an example of their comparisons. In 2001, the department surveyed five cities to compare the rental rates of the Exhibition Hall A and Conference Room 4300 in the Convention Center Complex. However, these comparisons exclude a good portion of the Convention Center complex facilities. Rental rates for facilities in the American Royal complex were also not included in the comparisons. Including comprehensive comparisons of rental rates for city convention facilities would improve the rental rate setting process.

Success in meeting cost recovery goals should be monitored. Our Fees and Service Charges follow-up audit also recommended departments calculate cost recovery rates using current information on revenues and costs. In addition to reporting progress in achieving the Mayor and City Council's cost recovery goals, the department director could use this information when determining whether to revise facility rental rates.

The director has the authority to modify rates. The city code establishes a Management Advisory Authority to serve in an advisory capacity to the Convention and Entertainment Centers Director.

According to the code, the authority is an advisory body that acts as an internal consultant in establishment of general policies and guidelines, maintenance and capital improvements, booking policy and rental rates, and other management related issues.¹²

Currently, the department charges rental rates that were approved by the authority in 1997. The rates have not been updated since that approval, except for some annual rental increases also approved at that time. In September 2002, the authority opposed the director's recommendation to raise rental rates, citing the soft economy and existing facility conditions.

The director does not need the advisory authority's approval for rate changes. According to the ordinance, authority for setting facility rental rates rests with the Convention and Entertainment Centers Director.¹³

The review process should consider cost recovery and other cities rate comparisons. The Director of Convention and Entertainment Centers should develop a formal rental rate setting process that is consistent with the department's revised mission. In order to set rental rates that are competitive, help recover a desired portion of expenses, and seek to fulfill the department's mission to maximize revenues, the department should routinely determine success in achieving established cost recovery goals and expand surveys of other cities to cover more venues. Using this information, the Director of Convention and Entertainment Centers should exercise his authority to set and change rental rates when necessary.

Comprehensive Discount Policies Are Needed

Convention and Entertainment Centers management has not established comprehensive policies for rental discounts. Patrons receive credits from standard rental rates based on total facilities rented. Additional discounts are sometimes offered to patrons considering rental of Convention and Entertainment Centers facilities in order to be competitive with other cities and attract organizations to use our facilities. Guidelines for awarding rental discounts as well as an informal approval process exists, but there are no written policies limiting the portion of rental fees that can be waived, no written procedures for approving these exceptions to standard rates, and no written requirements for documenting discount calculations, reviews, or approvals. Reasons for awarding past rental discounts and how the discount amounts were determined were not

¹² Code of Ordinances, Section 6-604.

¹³ Committee Substitute for Ordinance 971233, Section 2-602(d).

consistently documented in department files. Although the department does not track the aggregate amount of rental discounts, we estimate that standard credits and other discounts awarded in fiscal year 2002 totaled \$2.6 million. Inadequate controls over rental discounts could lead to the appearance of, and opportunity for, favoritism towards some users of the convention facilities.

Discount Policies Are Inadequate

Written policies for rental discounts are insufficient to control discounts given to some facility patrons. The department offers standard credits from rental rates based on total facilities rented. It also has written guidelines identifying factors that should be taken into account when additional rental discounts are considered to secure convention business. However, these written guidelines do not identify how much rental revenue management is willing to forego, who has the authority to award these additional discounts, or who is responsible for their review and approval. Reasons for awarding past rental discounts or methods used to determine their amounts were not consistently documented in department files.

Some discounts are standard amounts. Credits from standard rental rates are given to patrons based on the total facilities rented. Written schedules identify how the amount of these rental credits is determined. For example, guidelines describe the amount of credit given towards meeting rooms when halls in the Convention Center are rented.

Some facility rental contracts are reviewed and approved by the City Council. For example, ordinance 010071, passed on April 12, 2001, authorized a three-year lease agreement for the Kansas City Attack to hold soccer games in Kemper Arena. The 1995 facilities agreement with the American Royal Association does not expire until 2045.¹⁴ The agreement states that rental fees for dedicated utilization are \$150,000 annually, plus or minus the change in annual event revenues from those in 1995.

Guidelines for additional rental discounts are inadequate. Written guidelines for awarding additional rental discounts only describe factors to consider when determining the event's financial impact. According to the department's "Guidelines for Discounts," additional rental discounts are considered when one is requested or when they know they must offer a competitive rate to attract and confirm national touring shows. A

¹⁴ The agreement allows the city to renegotiate the contract terms on or before October 15, 2004 to reflect changes in circumstances since December 1996.

number of factors are considered to determine the overall financial impact of the individual event. These include:

- Total number of hotel room nights used.
- Anticipated tax revenue that will be generated and returned to the department.
- Time of year, or supply and demand (holidays are very difficult to sell).
- Competition for the business.
- Potential food and beverage revenues.
- Potential utility revenues.
- Potential for annual, multi-event, or multi-year contracts.
- Potential for other ancillary revenues (equipment rental).
- Potential novelty revenues.
- Potential parking revenues.
- Potential ticket revenues.
- Potential user fees.

These written guidelines do not identify how much rental revenue management is willing to forgo, who has the authority to award these additional discounts, or who is responsible for reviewing and approving these discounts.

Reasons for rental discounts are not consistently documented. The department does not consistently document the basis for determining that a rental discount is warranted and inadequately documents the review and approval of discounts given. Currently, department sales representatives ask the sales manager to approve rental discounts. If the discount is large or may be politically sensitive, we were told the department deputy director and director are consulted. The department director has the authority to deviate from standard rates.¹⁵

Our review of Convention and Entertainment Centers event files found no consistent documentation of the reasons some patrons received discounted rental rates, how the amount of the discount was determined, or who reviewed and approved the discount.

Department staff point to the director's signature on every contract as approval of all rental discounts given. However, it is unclear from the event files what rental discount information he reviews when he signs each contract. Without written documentation, it is difficult to determine whether rental discounts were given in accordance with established

¹⁵ Committee Substitute for Ordinance 971233, Section 2-602(d).

policies and department goals, or properly reviewed and approved by authorized department personnel.

Written policies would encourage consistency and establish authority and responsibility for rental discounts. Documentation of rationales and calculations of rental discounts would also protect the department from allegations of favoritism. It would also reduce opportunities for favoritism by individual sales representatives.

Comprehensive Discount Policies Are Needed

A comprehensive discount policy is needed to monitor and control discounts of facility rental charges. Our reviews of event files identified instances in which rental discounts given exceeded the department's standard discount schedules. We estimate that the standard rental credits and additional rental discounts awarded in fiscal year 2002 totaled about \$2.6 million.

Discounts sometimes exceeded department schedules. While some rental discounts followed the department's credit schedule, other events received deeper rental discounts. For example, the standard rental rate for one multi-day convention was \$89,500. Applying all the allowable credits according to department schedules would have reduced the rental charges to \$63,281. However, the department charged the event organizer only \$40,800. (See Exhibit 5.)

Exhibit 5. Rental Charge Before and After Discounts

Description	Amounts
Standard Rental Rate Charge	\$ 89,500
Less scheduled credits	(26,219)
Less additional discounts	(22,481)
Actual Rental Charge	\$ 40,800

Source: Convention and Entertainment Centers Event Files.

Rental discounts represent significant revenues. Close to half (43%) of the 208 events held in the Convention Center Complex in fiscal year 2002 received credits and other rental discounts totaling \$1.5 million, while 83 percent of the 53 events held in the American Royal Complex received rental credits and discounts totaling \$1.1 million. Combined, the credits and other rental discounts awarded in fiscal year 2002 total \$2.6 million.¹⁶

¹⁶ In our calculations, we considered the discount amount to be the difference between the standard rental rate and the actual rate charged.

Aggregate discount information is unavailable. Although information on credits and other rental discounts given for individual events is available in recent event files, the department does not maintain aggregate information on total rental discounts, and none of the department's reports include this data. Department management report that their new computer system may be able to track rental discounts and produce management reports summarizing this information in the future.

Tracking aggregate rental discounts given would enable the department to assess the impact of discounts on rental revenues. For example, the department could compare cost recovery goals to its discount rate. If management set an overall cost recovery goal, but determined that revenues recovered less than the goal, discount rates could be adjusted or instances in which rental discounts are offered could be reduced to try and reach the desired level of cost recovery in future years. If management decided that events would not receive rental discounts of more than a certain percent, departures from this policy could also be identified.

The department needs a comprehensive discount policy. The Director of Convention and Entertainment Centers should establish a comprehensive policy for setting and monitoring rental discounts. This policy should establish limits or formulas for setting limits on rental discounts; assign responsibility for reviewing and approving discounts; require documentation of discount calculations, rationales, and approvals; and require tracking and management reports on total rental discounts given.

Recommendations

1. The City Manager should submit the revised Convention and Entertainment Center's mission statement to the Mayor and City Council for deliberation.
2. The Director of Convention and Entertainment Centers should develop information on costs and revenues and submit this information to the Office of Management and Budget, for communication to the Mayor and City Council for their reconsideration of cost recovery goals.
3. The Director of Convention and Entertainment Centers should develop a formal rental rate setting process that is consistent with the department's new mission. The established process should consider

achievement of cost recovery goals and comprehensive rental surveys of other cities when rental rate modifications are considered.

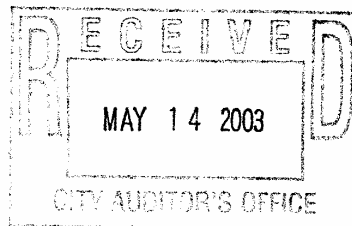
4. The Director of Convention and Entertainment Centers should establish a comprehensive written discount policy that sets limits on rental discounts offered, establishes responsibility for discount review and approval, requires documenting discount decisions, and requires tracking and management reports on total rental discounts given.

Convention and Entertainment Centers Facility Rental Revenues

Appendix A

City Manager's Response

Convention and Entertainment Centers Facility Rental Revenues

**Office of the City Manager**

DATE: May 13, 2003

TO: Mark Funkhouser, City Auditor

FROM: Wayne A. Cauthen, City Manager

SUBJECT: Convention and Entertainment Centers Facility Rental Revenues Audit

I have reviewed the audit of rental revenues generated by the Convention and Entertainment Centers Department and concur with the recommendation for the City Manager to formally submit the revised mission statement for the department to the Mayor and City Council for further deliberation.

As is noted in the audit report, this revised mission was developed through the department's participation in the KC-GO process prior to the development, review, and circulation of an RFP for the management and operation of the American Royal Center (ARC). This mission statement for the department as well as subsidiary mission and policy statements for the ARC complex and each building within the complex were included in the RFP document. These statements were reviewed at some length with the Finance and Audit Committee between September and November 2002, and were presented to the full council in writing and in a business session in November. However, no formal action was taken by the City Council specifically in regard to the department's mission statement or the other mission and policy statements included in the RFP.

Convention and Entertainment Centers Facility Rental Revenues

Appendix B

Director of Convention and Entertainment Centers' Response

Note: The City Auditor's comments regarding the Director of Convention and Entertainment Centers' response can be found in Appendix C.

Convention and Entertainment Centers Facility Rental Revenues

May 10, 2003

Department of Convention and Entertainment Centers

Response to City Auditor's Report
(Re: Facility Rental Revenues)

In response to the Auditor's report we are in agreement with the recommendations submitted with it. They are all recommendations that we have been in the process of initiating within the Department over the last year.

We take exception to parts of the body of the report and the assertions made as statements of fact. We know that the following is part of our procedures:

- Costs of operations are taken into account in setting rental rates and goals of cost recovery.
- There are written guidelines for setting discounts at the Convention Center
- The amount of discount reported is substantially overstated.
- Comprehensive surveys are performed for across the board increases

See Page 27 Comment 1

See Page 27 Comment 2

See Page 27 Comment 3

1. Rental rates for each venue and for different types of events have separate expectations in the revenue stream for cost recovery. The rental from a concert at Kemper should pay the direct and indirect cost of the facility. The standard rental for a concert of \$21,000 recovers our total operating costs plus \$5,000 to apply to the budget. Exhibit space in the American Royal Building recovers approximately 33% of total cost. The balance is to be generated by ancillary income. (Food and Beverage sales, parking income, utility charges). This is in response to the market. Each event type produces different revenue streams and opportunities. Some are major income producers and some break even. The benefit in total may be for the City as a whole not the facilities specifically.

2. Written guidelines have been provided to the Auditor for discounts at the Convention Center. (See attached)

See Page 27 Comment 4

3. The Report indicates that no account is kept of the discounts and that they estimated them at \$2,600,000 in 2002.

Our additions to the software of our event management system, which have been added in the last 6 months, are enabling us to track discounts and credits. The report from the Auditor has counted credits and discounts that are built into the convention and tradeshow rates. It also counted the difference between the rack rates for facilities used by the American Royal vs. the contracted rental in their 40-year agreement. The other discounts are given in order to attract new business. The objective in giving these discounts is to generate new events and conventions and the total income these might bring to the City and the facilities

See page 27 Comment 5

Page 2

We agree that better documentation should be provided in the explanation of the discounts for future review and better understanding. Written procedures will be provided for the process. We note that there is no question in the responsibility for approval of discounts and credits that are not part of standard rates. The Director or the Deputy Director approves these.

4. Finally, indeed as the report stated no comprehensive increase in rates across the board has occurred in several years. This is due to current market conditions that have reflected a buyers market for some time in all areas of the country. A minor rate increase recommended in 2002 was strongly opposed by the Convention Management Authority. The Auditor is correct in stating that the Director can set rates without approval by this body. However their advice and counsel are valued and not to be rejected out of hand. We will be bringing a new proposal to the forefront in the next several months.

The recommendations of the Auditor are valuable and can lead to helpful new tools for setting priorities and goals for the Department, which reflect on these very issues.

Appendix C

City Auditor's Comments Regarding the Director of Convention and Entertainment Centers' Response

Convention and Entertainment Centers Facility Rental Revenues

This appendix is the City Auditor's written comments on the response by the Director of Convention and Entertainment Centers. The numbers listed for each comment refer to specific passages in the Director of Convention and Entertainment Centers' response. (Appendix B.)

1. On page 6 of our report, we acknowledge that the department's annual budget is used to estimate daily costs. However, what is not known is the department's costs by individual event, information that would allow the department to identify events that are profitable from those that are not. Page 6 also states that Convention and Entertainment management told us they were developing a cost accounting system that would provide cost information for individual events.
2. Written guidelines for discounts are described on pages 11 and 12. However, we found them inadequate because they do not set limits on discounts, do not identify who can offer discounts, and do not identify who should review and approve discounts, nor describe how these discount decisions should be documented.
3. Our estimate of total discounts given was based on the difference between standard rental rates and actual rental fees paid for every event held in the city's facilities during fiscal year 2002.
4. We did not receive an attachment to include with the department's response.
5. We included all departures from standard rental rates in our estimates of total discounts. We did not adjust for discounts authorized by non-department staff because regardless of who authorized the discount, it affected the department's rental revenues. Convention and Entertainment staff report that, in addition to department staff, discount decisions are sometimes made by the City Manager, Mayor, and City Council. Routine reporting on the total discounts given, previously unavailable, will increase awareness of their combined impact on revenues when discounts for future events are considered. In addition, identifying discounts by the persons who authorized them would increase accountability.